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TOOLS TO REVITALIZE CALIFORNIA COMMUNITIES

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The June 1999 State Treasurer's Office report entitled *Smart Investments* cites the growing gap between the "two Californias." *Smart Investments* notes that the growing gap is increasingly reflected in how and where we live – with the economic and social distance ever growing between our older cities, inner-ring suburbs, and rural communities, on the one hand, and wealthy urban enclaves and thriving suburbs, on the other. *Smart Investments* further recognizes that two central goals of smart investment are promoting sustainable development patterns and fostering community revitalization. These two goals are fundamentally linked. Public investment policy plays a central part in achieving these goals.

The following is a summary of an upcoming California Debt and Investment Advisory Commission (CDIAC) reference guide, entitled *Tools to Revitalize California Communities,* which will be published in September, 2002. This guide provides an overview of community revitalization financing, looks at the types of public investment tools available for community revitalization, and gives basic information on selected public debt and investment programs available in California. To better enable the reader to relate to the available uses of these funds, real-life success stories are provided whenever possible. Lastly, this guide gives contact information to obtain further details on these programs. The full document will be available from CDIAC by phone at (916) 653-3269 and also will be available for downloading from the Internet at **www.treasurer.ca.gov/cdiac**.

Overview of Community Revitalization Financing

Economic development can be defined as a process that influences the growth and restructuring of an economy to enhance the well being of a community. Community revitalization is neighborhood-specific economic development activity involving the residents, businesses, local government, community organizations, banks, and institutions along with support from federal, state, private, and non-profit sources. The goals of community revitalization include:

- Providing affordable housing,
- Increasing educational opportunities,
- Improving access to health care,
- Retaining and expanding business opportunities,
- Improving infrastructure, and
- Fostering environmental cleanup of contaminated sites.

The major players in community revitalization include public and private sector entities and public-private partnerships. Traditionally, California's state-funded economic development efforts were primarily focused on the development and maintenance of infrastructure systems, workforce training and skill improvement programs, export promotion and assistance, and technology deployment and commercialization. Recent initiatives have increased the breadth of these types of activities.

Types of Community Revitalization Financing

Community revitalization programs can be grouped by the type of financing they provide, in addition to the sectors they seek to transform. These types of financing include debt and equity financing, loan guarantees, and tax credits.

Debt financing is defined as financing through the lending of funds. This can be done either through direct lending or through the selling of conduit bonds. Direct lending allows a business to borrow money to fund a project or make a purchase, such as for business development or capital improvements. Under this type of financing, the lender usually requires that the borrower provide a pledge of its revenues or other collateral to ensure repayment. In conduit bond financing, an issuer borrowers money and agrees, by written contract, to repay the amount borrowed plus an agreed upon rate of interest at a specified date.

In equity financing, the investor takes an ownership interest in a fund or project in exchange for a rate of return that depends on the profitability of the fund or project. Typically, this return is adjusted commensurate with the fund or project's asset class and risks. In this type of arrangement, the investor owns part of the fund or project in proportion to its investment allocation.

A loan guarantee involves the assumption of responsibility for payment of a debt or performance of some obligation if the liable party fails to perform to expectations. In traditional governmental loan guarantee programs, the guaranteeing entity will guarantee a loan made by a lender, such as a conduit financing authority or a commercial bank. Generally, these loan guarantees will provide the assurance of repayment of a percentage of the loan. A fee for this guarantee is usually required by the guaranteeing entity.

A tax credit is a dollar-for-dollar reduction in a taxpayer's federal and/or state income tax liability. Provided the credit can be used, one dollar of tax credit reduces the taxpayer's tax liability by an equivalent dollar, saving the taxpayer that dollar. This is different from a tax deduction, which is an offset to a taxpayer's pretax income. A tax deduction reduces a taxpayer's income on which its tax liability is calculated. If the taxpayer's marginal tax rate is 35 percent, one dollar of tax deduction lowers the tax liability by 35 cents.

Select Community Revitalization Programs in California

As part of CDIAC's reference guide, select state community revitalization programs are arranged in a matrix configuration classified by subject area (including real estate development, education, health, business development, infrastructure, pollution control, and other). On the other axis are the financing categories including debt financing (loans and conduit bonds), equity financing, loan guarantees, and tax credits.

This reference guide give brief descriptions of these programs, details the fees involved in taking part in the financing, describes the assistance terms offered, the eligible activities and applicants, and lists contact information for those interested in pursuing the programs for use in their communities. In some cases, the descriptions include success stories on the uses of these programs. The programs profiled in this reference guide include the following:

AGENCY/DEPARTMENT	PROGRAM NAME
State Boards, Authorities, & Commissions	
California Debt and Investment Advisory Commission (CDIAC)	Data Collection, Policy Research, and Continuing Education
California Debt Limit Allocation Committee (CDLAC)	Tax-exempt Private Activity Bond Debt Limit Allocation
California Educational Facilities Authority (CEFA)	Standard and Pooled Tax-exempt Bonds Tax-exempt Equipment Notes
California Health Facilities Financing Authority (CHFFA)	Help II Loans HealthCAP Loans Standard and Pooled Tax-exempt Bonds Tax-exempt Equipment Notes
California Industrial Development Financing Advisory Commission (CIDFAC)	Tax-exempt Industrial Development Bonds
California Pollution Control Financing Authority (CPCFA)	California Recycle Underutilized Sites (Cal ReUSE) Loans California Capital Access Program (CalCAP) for Small Businesses Pollution Control Tax-exempt Bonds
California Tax Credit Allocation Committee (CTCAC)	Federal and State Low-income Housing Tax Credits

State Treasurer's Office (STO)	
Investments Division - Pooled Money Investment Account (PMIA)	Community Reinvestment Act (CRA) Loan Purchases Time Deposits Small Business Loan Purchases
Office of Statewide Health Planning and Development (OSHPD)	
Cal-Mortgage Loan Insurance Division	California Health Facility Construction Loan Insurance
California Technology, Trade and Commerce Agency	
California Infrastructure and Economic Development Bank (CIEDB)	Infrastructure State Revolving Fund (ISRF) Loans Conduit Revenue Bonds
California Public Employees' Retirement System (CalPERS)	California Urban Real Estate (CURE) Investments The California Initiative
California State Teachers' Retirement System (CalSTRS)	Urban Real Estate Investments Program for Urban and Rural Investing
Consumer Power and Conservation Financing Authority (California Power Authority "CPA")	Energy Financing Industrial Development Bonds
California Transportation Commission (CTC)/Department of Transportation (Caltrans)	Grant Anticipation Revenue Vehicle (GARVEE) Bonds

This Offprint was previously published in DEBT LINE, a monthly publication of the California Debt and Investment Advisory Commission (CDIAC). CDIAC was created in 1981 to provide information, education, and technical assistance on public debt and investment to state and local public officials and public finance officers. DEBT LINE serves as a vehicle to reach CDIAC's constituents, providing news and information pertaining to the California municipal finance market. In addition to topical articles, DEBT LINE contains a listing of the proposed and final sales of public debt provided to CDIAC pursuant to Section 8855(g) of the California Government Code. Questions concerning the Commission should be directed to CDIAC at (916) 653-3269 or, by e-mail, at cdiac@treasurer.ca.gov. For a full listing of CDIAC publications, please visit our website at http://www.treasurer.ca.gov/cdiac.